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EXECUTIVE SECRETARY

December 30, 1999

Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0500

99-00995

**RE: Earnings Investigation of Crockett Telephone Company, Inc.,
People's Telephone Company, Inc. and West Tennessee
Telephone Company, Inc., (the three "TEC Companies") for the
years 1999-2001**

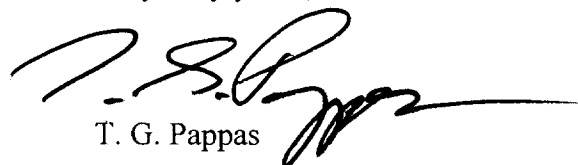
Dear Mr. Waddell:

As counsel for the TEC Companies, and as directed in your letter of December 6, 1999, to Greg Eubanks, I am filing herewith original and thirteen (13) copies of a Settlement Agreement dated December 28, 1999, signed by Mr. Greg Eubanks on behalf of the 3 TEC Companies and Mr. Vincent Williams on behalf of the Consumer Advocate Division of the State Attorney General's Office. This Agreement will be the basis of a Joint Petition to be filed by the TEC Companies and the Consumer Advocate Division seeking the consideration and approval of the Tennessee Regulatory Authority. We hope to be able to file the Joint Petition within the next two weeks.

We apologize for the time that it has taken to investigate, review and finally agree in reaching the settlement that we have reached. As you know, the Companies have cooperated with the Staff of the Authority in its earnings review.

With kindest regards, I remain

Very truly yours,


T. G. Pappas

TGP/br#2078242
Enclosure

cc: L. Vincent Williams, Esq.
Mr. Gregory Eubanks
Mr. Vance L. Broemel, Esq.
Richard Collier, Esq.
Mr. Tommy Ott
Mr. Dwight Work
Mr. Archie Hickerson
Mr. Terry Buckner
Mr. Chris Klein
Mr. Joe Werner
Mr. David Foster



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OFFICE OF THE
EXECUTIVE SECRETARY

December 28, 1999

Mr. Vincent Williams
State of Tennessee
Office of the Attorney General
426 Fifth Avenue North
Nashville, Tennessee 37243-0485

RE: Earnings Investigation for Years 1999-2001

99-00995

Dear Mr. Williams:

On December 20, 1999 Telephone Electronics Corporation and the Consumer Advocate Division of the Office of the Attorney General met to discuss the results of an earnings analysis for the years 1999-2001. During the meeting it was agreed that:

1. We agreed as to the projected financial information for the years 1999-2001 and that the overearnings for the three Tennessee Operating companies is \$6,354,181.
2. Any reduction in earnings as a result of the projected financial information would be effective for the years 1999-2001.
3. It was agreed that \$720,000 of the 6.355 million was to offset the miss in earnings during the previous review period that was the result of the delay in deployment of projected plant improvements.
4. If Telephone Electronics Corporation decides to apply for a Tennessee Code Ann. § 65-5-209 price regulation plan prior to the end of 2002, Telephone Electronics Corporation shall request the Authority to institute a contested, evidentiary proceeding to set initial rates. If Alternative Regulation is applied for during 2000-2001 the company understands it would be subject to another audit at that time.

Telephone Electronics Corporation and the Consumer Advocate have agreed that Peoples, Crockett and West Tennessee Telephone Companies will have excess earnings of \$5.7 million. Since rate base is reduced by \$2.467 million in the disposition of earnings as a result of increased depreciation and amortization expense, it was determined that an additional reduction in earnings of \$655,000 would need to be made.

Telephone Electronics Corporation agrees to reduce earnings by making the following adjustments during the review period 1999-2001. See Summary of Proposed Revenue Adjustments by company.

1999 Adjustments

1999
Earnings Reduction

1. Increase in Depreciation and Amortization Expense	\$ 586,080
2. Impact of Dialing Parity-3 Months	<u>161,565</u>
Total Adjustments 1999	<u>\$ 747,645</u>

T E L E P H O N E
E L E C T R O N I C S
C O R P O R A T I O N
B O X 2 2 9 2 3
J A C K S O N M S 3 9 2 2 5
2 3 6 E A S T C A P I T O L S T
F A X 6 0 1 3 5 5 1 9 6 4
6 0 1 2 5 4 0 0 7 0

Mr. Vince Williams
 December 28, 1999
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<u>2000 Adjustments</u>	<u>2000 Earnings Reduction</u>
1. Increase in Depreciation and Amortization Expense	\$ 891,287
2. Waive Non-Recurring Charges during Forecast Period	168,420
3. Impact of Dialing Parity	646,260
4. Elimination of Intracompany Toll	21,525
5. Increase Contiguous County Calling Plan to 180 Minutes @ 50 Percent Discount During Forecast Period 2000 through 2001	141,269
6. Monthly Credit of \$5.00 per Business Access Line	175,289
7. Monthly Credit of \$4.75 per Residence Access Line	<u>688,574</u>
Total Adjustments 2000	<u>\$2,732,624</u>

<u>2001 Adjustments</u>	<u>2001 Earnings Reduction</u>
1. Increase in Depreciation and Amortization Expense	\$ 989,741
2. Waive Non-Recurring Charges during Forecast Period	179,360
3. Impact of Dialing Parity	646,260
4. Elimination of Intracompany Toll	21,525
5. Increase Contiguous County Calling Plan to 180 Minutes @ 50 Percent Discount During Forecast Period 2000 through 2001	141,269
6. Monthly Credit of \$5.00 per Business Access Line	181,529
7. Monthly Credit of \$4.75 per Residence Access Line	<u>714,228</u>
Total Adjustments 2001	<u>\$ 2,873,912</u>

TOTAL ADJUSTMENTS 1999-2001	<u>\$ 6,354,181</u>
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In prior years Telephone Electronics Corporation has capitalized software costs associated with the digital switches. The Companies have also capitalized subsequent software upgrades to the digital switches. The Companies have agreed with the Consumer Advocate that a special account be established for software upgrades and that these costs be amortized over an accelerated or expedited period.

Telephone Electronics Corporation and the Consumer Advocate considered many, many alternatives. If at any time during the review period the Authority or any court modifies the revenue structure, the Consumer Advocate agrees with Telephone Electronics Corporation that appropriate adjustments should be considered.

Mr. Vince Williams
December 28, 1999
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For the period January 1, 2000 through 2001 TEC will give each user of contiguous county calling a minimum credit of 5.5 cents per minute for calls in the plan up to 180 minutes for those carriers which TEC does the end user billing. This credit would remain at a minimum of 5.5 cents even if there are toll reductions during the review period.

We believe this letter accurately summarizes the significant terms of our settlement. If you have any questions, please call me at (601)-354-9070. If you agree with our understanding of the settlement, please sign the enclosed copy and return to me for my files.

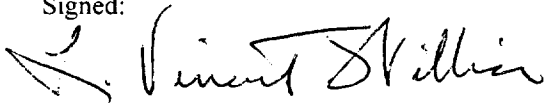
Sincerely,


Gregory Eubanks
Director-Regulatory Accounting

RESPONSE:

This letter correctly sets forth the understanding of the Consumer Advocate.

Signed:



Date: December 30, 1999

Cc: Mr. Robert Healea
Mr. Tom Ott
Mr. T. G. Pappas
Mr. Jim Wingo
Mr. Dwight Work

TELEPHONE ELECTRONICS CORPORATION
PROPOSED REVENUE ADJUSTMENTS
1999-2001

	WEST TENNESSEE TELEPHONE COMPANY	PEOPLES TELEPHONE COMPANY	CROCKETT TELEPHONE COMPANY	TOTALS
PROPOSED ADJUSTMENTS-1999				
Increase in Depreciation Expense-1999	\$ 312,570.00	\$ 171,926.00	\$ 101,584.00	\$ 586,080.00
Dialing Parity Impact- 3 Months	55,877.37	74,815.52	30,872.09	161,564.98
TOTAL PROPOSED ADJUSTMENTS-1999	\$ 368,447.37	\$ 246,741.52	\$ 132,456.09	\$ 747,644.98
PROPOSED ADJUSTMENTS-2000				
Increase in Depreciation Expense-2000	430,439.00	281,511.00	179,337.00	891,287.00
Waive Non-Recurring Charges during Forecast Period	62,950.00	46,587.50	58,882.50	168,420.00
Dialing Parity Impact	223,509.46	299,262.09	123,488.36	646,259.91
Eliminate Intracompany Toll; Access	20,335.44	1,189.56	-	21,525.00
Increase Contiguous County Plan to 180 Minutes @ 50 Percent Discount During Forecast Period	35,260.05	55,440.00	50,569.20	141,269.25
Credit for Business Access Lines(\$5.00 per line)	55,354.32	59,119.92	60,814.44	175,288.68
Credit for Residence Access Lines(\$4.75 per line)	236,878.21	239,143.84	212,552.43	688,574.48
TOTAL PROPOSED ADJUSTMENTS-2000	\$ 1,064,726.48	\$ 982,253.91	\$ 685,643.93	\$ 2,732,624.32
TOTAL PROPOSED ADJUSTMENTS-2001				
Increase in Depreciation Expense-2001	461,958.00	289,422.00	238,361.00	989,741.00
Waive Non-Recurring Charges during Forecast Period	65,845.70	51,628.27	61,885.51	179,359.48
Dialing Parity Impact	223,509.46	299,262.09	123,488.36	646,259.91
Eliminate Intracompany Toll; Access	20,335.44	1,189.56	-	21,525.00
Increase Contiguous County Plan to 180 Minutes @ 50 Percent Discount During Forecast Period	35,260.05	55,440.00	50,569.20	141,269.25
Credit for Business Access Lines(\$5.00 per line)	57,788.64	62,635.46	61,105.14	181,529.24
Credit for Residence Access Lines(\$4.75 per line)	247,295.41	253,364.44	213,568.46	714,228.31
TOTAL PROPOSED ADJUSTMENTS-2001	\$ 1,111,992.70	\$ 1,012,941.82	\$ 748,977.66	\$ 2,873,912.19
TOTAL PROPOSED ADJUSTMENTS-1999-2001	\$ 2,545,166.54	\$ 2,241,937.26	\$ 1,567,077.68	\$ 6,354,181.48